

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

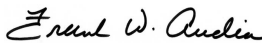
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Romulus, Michigan

Financial Report with Supplemental Information June 30, 2007

City of Romulus, Michigan

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City of Romulus, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Romulus, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Romulus, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Romulus, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Romulus, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2007, included at the end of this document, on our consideration of the City of Romulus, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

December 3, 2007

City of Romulus, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the City of Romulus, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2007:

- Total revenues within the General Fund increased by \$1,416,166, an increase of 7.1 percent.
- In an attempt to slow traffic and decrease motor vehicle accidents and to support the State of Michigan's effort to enforce federal speed limits as mandated by the U.S. Department of Transportation, the City has instituted an enhanced traffic safety effort. This initial effort has provided the General Fund with a revenue increase of \$1.4 million.
- Again this year, state-shared revenue was reduced by the State of Michigan by approximately \$25,730. This represents a 1.1 percent decrease from the prior year and a decrease of 23.7 percent from 2001. Although the State's adopted budget for FY 2007/2008 includes an appropriation for revenue sharing based on an extension of the Act for one year, legislation to accomplish this still requires action.
- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2006/2007 was \$1,264,906,712, which represents a decrease of \$35,606,170 or 2.7 percent, related to tax appeals which were already accounted for in the prior year. As a result, the General Fund actually had an increase in tax revenue of \$597,020. Unless the unstable housing market within the state of Michigan improves, it is possible that the City will sustain a loss in taxable value in future tax years.
- Due to rising interest rates, investment income increased by \$267,508.
- Total expenditures within the General Fund increased \$429,891, an increase of 2.1 percent.
- Public safety costs increased by \$409,699, which was due to an increase in salary, overtime, and fringe benefit costs.
- Due to rising gas and oil prices and increased maintenance costs due to an aging fleet, the Motor Vehicle Fund's unrestricted net assets have declined to approximately \$212,000. Essentially, with this level of unrestricted net assets, the City does not have adequate funds available for additional investment in capital assets.

City of Romulus, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report City operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2006 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 12,645	\$ 12,832	\$ 14,781	\$ 17,232	\$ 27,426	\$ 30,064
Noncurrent assets	61,305	63,103	58,155	55,486	119,460	118,589
Total assets	73,950	75,935	72,936	72,718	146,886	148,653
Liabilities						
Current liabilities	3,997	4,094	4,138	4,288	8,135	8,382
Long-term liabilities	6,710	7,386	30,503	32,542	37,213	39,928
Total liabilities	10,707	11,480	34,641	36,830	45,348	48,310
Net Assets						
Invested in capital assets -						
Net of related debt	54,339	55,473	26,915	26,235	81,254	81,708
Restricted	4,264	4,512	6,843	6,447	11,107	10,959
Unrestricted	4,640	4,470	4,537	3,206	9,177	7,676
Total net assets	<u>\$ 63,243</u>	<u>\$ 64,455</u>	<u>\$ 38,295</u>	<u>\$ 35,888</u>	<u>\$ 101,538</u>	<u>\$ 100,343</u>

The City's combined net assets increased by \$1,194,000. The net assets of the governmental activities decreased by approximately \$1.2 million or 1.9 percent and business-type activities increased \$2.4 million or 6.7 percent. The decreases in the governmental activities were primarily a result of depreciation in excess of capital outlay and contributions. Last year, the City's DDA donated the Senior Center to the governmental activities. The increase in business-type activities relates to rate increases and capital contributions.

City of Romulus, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Net Assets - Beginning of year	\$ 64,455	\$ 46,741	\$ 35,888	\$ 34,803	\$ 100,343	\$ 81,544
Revenue						
Program revenue:						
Charges for services	5,866	4,223	9,691	9,246	15,557	13,469
Operating grants and contributions	2,495	2,825	19	31	2,514	2,856
Capital grants and contributions	1,714	14,941	678	-	2,392	14,941
General revenue:						
Property taxes:						
City	10,553	10,333	-	-	10,553	10,333
Sanitation	972	856	-	-	972	856
Street lighting	420	342	-	-	420	342
EPA	-	-	2,474	2,428	2,474	2,428
State-shared revenue	3,715	4,285	-	-	3,715	4,285
Unrestricted investment earnings	843	576	373	246	1,216	822
Loss on sale of capital assets	-	-	-	-	-	-
Miscellaneous revenue	1,097	1,064	92	80	1,189	1,144
Total revenue	27,675	39,445	13,327	12,031	41,002	51,476
Program Expenses						
General government	4,469	4,413	-	-	4,469	4,413
Public safety	11,933	10,639	-	-	11,933	10,639
Public works	11,047	8,359	-	-	11,047	8,359
Health and welfare	210	205	-	-	210	205
Community and economic development	141	668	-	-	141	668
Recreation and culture	1,092	949	-	-	1,092	949
Interest on long-term debt	189	211	-	-	189	211
Water and sewer	-	-	10,920	10,946	10,920	10,946
Total program expenses	29,081	25,444	10,920	10,946	40,001	36,390
Special Item - Transfer of asset	194	3,713	-	-	194	3,713
Change in Net Assets	(1,212)	17,714	2,407	1,085	1,195	18,799
Net Assets - End of year	<u>\$ 63,243</u>	<u>\$ 64,455</u>	<u>\$ 38,295</u>	<u>\$ 35,888</u>	<u>\$ 101,538</u>	<u>\$ 100,343</u>

Governmental Activities

The City's total governmental revenues decreased by approximately \$11.8 million, primarily due to a decrease in donated assets.

City of Romulus, Michigan

Management's Discussion and Analysis (Continued)

Total program expenses increased by 14.3 percent, resulting from increased maintenance and depreciation costs.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit Water System. We provide sewage treatment through Wayne County Downriver Sewage Disposal System and Rouge Valley Sewage Disposal System. The operating loss in FY 2006/2007 was reduced from in excess of \$1.3 million to \$307,577, which was primarily due to an increase in water and sewer rates.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2007 include the General Fund and the Water and Sewer Fund. The Water and Sewer Fund is described above.

The General Fund pays for most of the City's governmental services. The most noteworthy are police and fire, which incurred expenses of approximately \$11 million in 2007. Additionally, the building and grounds department is significant in that it contains 12 percent of the total General Fund expenditures.

General Fund Budgetary Highlights

Although the City of Romulus achieved a measurable increase in fund balance, this must be tempered with the State's current economic downturn and the recent increase in mortgage foreclosures and bankruptcies. In addition, expenditures for energy and legacy costs have continued to rise; therefore, it must be understood that we must continue to closely monitor expenditures and enhance revenues in order to maintain a positive fund balance.

The most significant budget variances related to buildings and grounds expense and revenue from state sources, in which actual expenditures were under budget by approximately \$1.5 million and actual revenues were under budget by approximately \$1.6 million. The variances relate to the Clean Michigan project, which the City anticipated completing in 2006/2007. Considering the scope of this project and the decreasing availability of grant funding, the completion of the project is uncertain.

City of Romulus, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

The City has several construction projects in various stages of completion. The Tax Increment Finance Authority has purchased a 40,000 square foot vacant industrial building and 16½ acres for the purpose of constructing an 88,000 square foot recreation center. This facility will house an aquatic complex, fitness area, walking track, multi-purpose space, and administrative offices to be utilized by the residents and businesses within the City of Romulus. This project is under construction and should be completed by spring of 2008. Future tax increments will be pledged for the construction cost. Other projects include the replacement of the Hildebrandt water main, the extension of Vining Road, and the relocation of the Wayne/Wahrman intersection.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year requires \$1.3 million of fund balance in order to provide a balanced budget. Because of reductions in several of the City's major revenue sources, the City needs to continue to watch its budget very closely.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at City Hall.

City of Romulus, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and investments (Note 3)	\$ 6,160,308	\$ 2,561,995	\$ 8,722,303	\$ 9,628,665
Receivables - Net (Note 4)	4,222,026	2,796,939	7,018,965	133,154
Accounts receivable from component units (Note 6)	649,130	-	649,130	-
Accounts receivable from primary government (Note 6)	-	-	-	62,939
Due from other governmental units	1,250,712	255,422	1,506,134	29,176
Inventories	141,130	74,730	215,860	-
Prepaid costs and other assets	221,327	-	221,327	189,254
Restricted assets (Note 7)	-	8,905,876	8,905,876	9,060,451
Other assets	-	186,345	186,345	1,063,652
Capital assets - Net (Note 5):				
Assets not being depreciated	8,018,481	6,748,376	14,766,857	19,720,323
Assets being depreciated	53,286,799	51,406,532	104,693,331	210,733
Total assets	73,949,913	72,936,215	146,886,128	40,098,347
Liabilities				
Accounts payable	1,149,761	1,080,648	2,230,409	1,043,231
Accrued and other liabilities	438,122	774,709	1,212,831	67,286
Retainage payable	-	50,000	50,000	1,073,364
Customer deposits payable	-	53,762	53,762	-
Accounts payable to primary government (Note 6)	-	-	-	649,130
Accounts payable to component units (Note 6)	18,058	44,881	62,939	-
Due to other governmental units	327	-	327	1,209,509
Deferred revenue (Note 4)	988,551	-	988,551	-
Compensated absences due within one year	710,466	94,013	804,479	21,686
Debt obligations due within one year (Note 9)	691,777	2,040,534	2,732,311	2,070,000
Noncurrent liabilities:				
Compensated absences due in more than one year	435,566	23,503	459,069	5,421
Debt obligations due in more than one year (Note 9)	6,274,247	30,479,492	36,753,739	26,870,000
Total liabilities	10,706,875	34,641,542	45,348,417	33,009,627
Net Assets				
Invested in capital assets - Net of related debt	54,339,256	26,914,426	81,253,682	(1,021,857)
Restricted:				
Streets and highways	1,537,131	-	1,537,131	-
Debt service	3,588	6,843,117	6,846,705	-
Capital purposes	1,408,009	-	1,408,009	-
Other purposes	1,315,539	-	1,315,539	-
Unrestricted	4,639,515	4,537,130	9,176,645	8,110,577
Total net assets	\$ 63,243,038	\$ 38,294,673	\$ 101,537,711	\$ 7,088,720

City of Romulus, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 4,469,531	\$ 1,244,822	\$ 24,453	\$ -
Public safety	11,933,059	2,616,750	674,120	32,566
Public works	11,047,348	1,927,105	1,703,356	1,635,385
Health and welfare	209,902	-	-	-
Community and economic development	140,926	-	93,569	46,126
Recreation and culture	1,091,614	77,723	-	-
Interest on long-term debt	188,787	-	-	-
Total governmental activities	29,081,167	5,866,400	2,495,498	1,714,077
Business-type activities - Water and sewer	10,919,941	9,690,709	18,959	678,301
Total primary government	<u>\$ 40,001,108</u>	<u>\$ 15,557,109</u>	<u>\$ 2,514,457</u>	<u>\$ 2,392,378</u>
Component units:				
Tax Increment Financing Authority	\$ 1,550,023	\$ -	\$ -	\$ -
Downtown Development Authority	546,241	-	-	212,351
Economic Development Corporation	560	-	-	-
Total component units	<u>\$ 2,096,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,351</u>
General revenue:				
Property taxes:				
City				
Sanitation				
Street lighting				
EPA				
Component unit				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Special item - Transfer of asset				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (3,200,256)	\$ -	\$ (3,200,256)	\$ -
(8,609,623)	-	(8,609,623)	-
(5,781,502)	-	(5,781,502)	-
(209,902)	-	(209,902)	-
(1,231)	-	(1,231)	-
(1,013,891)	-	(1,013,891)	-
(188,787)	-	(188,787)	-
(19,005,192)	-	(19,005,192)	-
-	(531,972)	(531,972)	-
(19,005,192)	(531,972)	(19,537,164)	-
-	-	-	(1,550,023)
-	-	-	(333,890)
-	-	-	(560)
-	-	-	(1,884,473)
10,552,579	-	10,552,579	-
971,437	-	971,437	-
419,966	-	419,966	-
-	2,473,559	2,473,559	-
-	-	-	5,851,107
3,714,936	-	3,714,936	-
842,602	372,372	1,214,974	1,220,880
1,097,367	92,325	1,189,692	-
194,116	-	194,116	(194,115)
(1,212,189)	2,406,284	1,194,095	4,993,399
64,455,227	35,888,389	100,343,616	2,095,321
\$ 63,243,038	\$ 38,294,673	\$ 101,537,711	\$ 7,088,720

City of Romulus, Michigan

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 1,931,260	\$ 3,137,462	\$ 5,068,722
Receivables - Net	2,452,099	1,769,927	4,222,026
Prepaid costs and other assets	221,327	-	221,327
Accounts receivable from component units (Note 6)	628,273	20,857	649,130
Due from other governmental units	561,736	267,615	829,351
Inventories	31,785	55,385	87,170
Total assets	<u>\$ 5,826,480</u>	<u>\$ 5,251,246</u>	<u>\$ 11,077,726</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 283,696	\$ 814,340	\$ 1,098,036
Accrued and other liabilities	404,256	20,568	424,824
Due to other funds (Note 6)	-	22,573	22,573
Accounts payable to component units (Note 6)	11,871	6,187	18,058
Due to other governmental units	327	-	327
Deferred revenue (Note 4)	2,106,471	1,537,107	3,643,578
Total liabilities	2,806,621	2,400,775	5,207,396
Fund Balances			
Reserved (Note 10)	39,002	731,203	770,205
Unreserved - Designated for subsequent year's expenditures - Reported in:			
General Fund	1,283,301	-	1,283,301
Special Revenue Funds	-	469,195	469,195
Debt Service Funds	-	2,996	2,996
Unreserved - Undesignated:			
General Fund	1,697,556	-	1,697,556
Special Revenue Funds	-	1,390,362	1,390,362
Debt Service Funds	-	592	592
Capital Projects Fund	-	256,123	256,123
Total fund balances	<u>3,019,859</u>	<u>2,850,471</u>	<u>5,870,330</u>
Total liabilities and fund balances	<u>\$ 5,826,480</u>	<u>\$ 5,251,246</u>	<u>\$ 11,077,726</u>

City of Romulus, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2007

Fund Balances - Total Governmental Funds	\$ 5,870,330
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	58,410,527
Special assessment and state-shared revenue receivables are expected to be collected over the next several years and are not available to pay current year expenditures	1,835,062
Grant revenue and delinquent personal property tax not collected within 60 days of year end are recognized as revenue in the statement of net assets, but shown as deferred revenue in the funds	1,241,326
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Compensated absences	(1,089,167)
Long-term debt and accrued interest	(6,547,539)
Internal Service Funds are also included as governmental activities	<u>3,522,499</u>
Change in Net Assets of Governmental Activities	<u>\$ 63,243,038</u>

City of Romulus, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 10,563,380	\$ 1,390,087	\$ 11,953,467
Licenses and permits	1,761,418	-	1,761,418
Federal sources	55,578	195,464	251,042
Intergovernmental revenues	3,941,398	1,513,218	5,454,616
Charges for services	1,848,023	-	1,848,023
Fines and forfeitures	2,263,357	425,385	2,688,742
Investment income	638,608	169,181	807,789
Other	245,364	599,205	844,569
Total revenue	21,317,126	4,292,540	25,609,666
Expenditures			
Current:			
Legislative	74,871	-	74,871
General government	6,356,254	164,609	6,520,863
Public safety	12,207,539	606,706	12,814,245
Public works	505,681	3,191,577	3,697,258
Health and welfare	464,365	-	464,365
Recreation and culture	991,928	93,212	1,085,140
Debt service	-	571,816	571,816
Total expenditures	20,600,638	4,627,920	25,228,558
Excess of Revenues Over (Under) Expenditures	716,488	(335,380)	381,108
Other Financing Sources (Uses)			
Transfers in	78,641	975,128	1,053,769
Transfers out	(261,901)	(791,868)	(1,053,769)
Total other financing sources (uses)	(183,260)	183,260	-
Net Change in Fund Balances	533,228	(152,120)	381,108
Fund Balances - Beginning of year	2,486,631	3,002,591	5,489,222
Fund Balances - End of year	<u>\$ 3,019,859</u>	<u>\$ 2,850,471</u>	<u>\$ 5,870,330</u>

City of Romulus, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 381,108
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	951,506
Capital contributions from DDA and outside developers are not a current financial resource	1,171,378
Depreciation on capital assets reported on governmental funds report as capital outlays expenditures	(3,655,367)
Loss on sale of capital assets is not reported in the governmental funds	(1,241)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(82,430)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	50,248
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	467,319
Increase in accumulated employee sick and vacation pay is recorded when taken in the statement of activities	(96,419)
Internal Service Funds are also included as governmental activities	(398,291)
Change in Net Assets of Governmental Activities	<u>\$ (1,212,189)</u>

City of Romulus, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,561,995	\$ 1,091,586
Receivables - Net	2,796,939	-
Due from other funds (Note 6)	-	22,573
Due from other governmental units	255,422	-
Inventories and prepaid expenses	74,730	53,960
Total current assets	5,689,086	1,168,119
Noncurrent assets:		
Restricted assets	8,905,876	-
Other assets	186,345	-
Capital assets:		
Assets not being depreciated	6,748,376	-
Assets being depreciated	51,406,532	2,894,753
Total noncurrent assets	67,247,129	2,894,753
Total assets	72,936,215	4,062,872
Liabilities		
Current liabilities:		
Accounts payable	1,080,648	51,725
Accounts payable to component units	44,881	-
Accrued and other liabilities	824,709	13,298
Customer deposits payable	53,762	-
Current portion of compensated absences	94,013	45,492
Current portion of long-term debt	2,040,534	204,926
Total current liabilities	4,138,547	315,441
Noncurrent liabilities:		
Provision for compensated absences - Net of current portion	23,503	11,373
Long-term debt - Net of current portion	30,479,492	213,559
Total noncurrent liabilities	30,502,995	224,932
Total liabilities	34,641,542	540,373
Net Assets		
Invested in capital assets - Net of related debt	26,914,426	2,476,268
Restricted for debt service	6,843,117	-
Unrestricted	4,537,130	1,046,231
Total net assets	<u>\$ 38,294,673</u>	<u>\$ 3,522,499</u>

City of Romulus, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Charges for services	\$ 9,380,050	\$ 2,677,104
Federal sources	18,959	-
Other charges for services	294,003	4,744
Total operating revenue	9,693,012	2,681,848
Operating Expenses		
Administrative charges	902,323	-
Salaries	1,097,159	550,849
Sewer and water disposal	4,697,494	-
Operating supplies	96,463	59,352
Repairs and maintenance	51,915	306,268
Gas and oil	-	304,218
Insurance	103,860	838,862
Fringe benefits	600,325	216,144
Equipment rental	417,814	-
Miscellaneous	25,339	13,437
Depreciation	1,581,894	690,337
Contractual services	57,103	87,838
Claims and legal	-	47,571
Bad debt expense	368,900	-
Total operating expenses	10,000,589	3,114,876
Operating Loss	(307,577)	(433,028)
Nonoperating Revenue (Expense)		
Property taxes	2,473,559	-
Investment income	372,372	36,980
Interest expense	(919,352)	(23,622)
Debt service charges	109,186	-
Gain on disposal of assets	-	21,379
Total nonoperating revenue	2,035,765	34,737
Change in Net Assets - Before capital contributions	1,728,188	(398,291)
Capital Contributions	678,096	-
Increase (Decrease) in Net Assets	2,406,284	(398,291)
Net Assets - Beginning of year	35,888,389	3,920,790
Net Assets - End of year	<u><u>\$ 38,294,673</u></u>	<u><u>\$ 3,522,499</u></u>

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Romulus, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	\$ 8,788,637	\$ 2,681,848
Payments to suppliers	(6,628,099)	(1,117,992)
Payments to employees	(1,887,650)	(1,416,397)
Net cash provided by operating activities	272,888	147,459
Cash Flows from Capital and Related Financing Activities		
Proceeds from the sale of fixed assets	-	18,390
Proceeds from property tax levy - Restricted for debt service	2,473,559	-
Payments to County from Debt Service Fund	(1,728,603)	-
Principal paid on long-term debt	(8,060)	(196,640)
Interest paid on long-term debt	(919,352)	(23,774)
Debt service charges	109,186	-
Purchase of capital assets	(3,572,735)	(423,792)
Net cash used in capital and related financing activities	(3,646,005)	(625,816)
Cash Flows from Investing Activities - Investment income	372,372	37,132
Net Decrease in Cash and Cash Equivalents	(3,000,745)	(441,225)
Cash and Cash Equivalents - Beginning of year	14,468,616	1,532,811
Cash and Cash Equivalents - End of year	\$ 11,467,871	\$ 1,091,586
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 2,561,995	\$ 1,091,586
Restricted investments	8,905,876	-
Total cash and cash equivalents	\$ 11,467,871	\$ 1,091,586
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (307,577)	\$ (433,028)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,581,894	690,337
Amortization of bond issuance costs	9,655	-
Bad debt expense	368,900	-
Changes in assets and liabilities:		
Receivables	(739,460)	-
Due from other governmental units	(164,915)	-
Inventory	(24,527)	(18,351)
Accounts payable	(260,916)	(97,728)
Accrued and other liabilities	(190,166)	6,229
Net cash provided by operating activities	\$ 272,888	\$ 147,459

Noncash Capital and Related Financing Activities - During the year, \$678,096 of water and sewer lines were donated to the City by developers.

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Romulus, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension and Other Employee Benefits Trust Retirees' Insurance Benefits Fund	Agency Funds
Assets		
Cash and investments	\$ 2,116,696	\$ 8,643,452
Accounts receivable	71,316	391,481
Prepaid expenses	-	218
Due from other governmental units	-	153,422
Total assets	2,188,012	<u><u>\$ 9,188,573</u></u>
Liabilities		
Due to other governmental units	-	\$ 6,039,582
Accrued and other liabilities	-	3,148,991
Total liabilities	-	<u><u>\$ 9,188,573</u></u>
Net Assets - Held in trust for employee benefits	<u><u>\$ 2,188,012</u></u>	

City of Romulus, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	Pension and Other Employee Benefits Trust Retirees' Insurance Benefits Fund
Additions	
Investment income:	
Interest income	\$ 73,015
Net increase in fair value of investments	<u>26,480</u>
Total investment income	99,495
Contributions - Employer	<u>878,818</u>
Total additions	978,313
Deductions - Benefit payments	<u>846,612</u>
Net Increase in Net Assets Held for Retirees' Insurance Benefits	131,701
Net Assets Held in Trust for Retiree Insurance Benefits	
Beginning of year	<u>2,056,311</u>
End of year	<u><u>\$ 2,188,012</u></u>

City of Romulus, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2007

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Totals
Assets				
Cash and investments	\$ 9,522,858	\$ 104,880	\$ 927	\$ 9,628,665
Receivables:				
Interest	73,154	-	-	73,154
Property taxes	60,000	-	-	60,000
Due from other governmental units	26,864	2,312	-	29,176
Receivable from primary government (Note 6)	50,049	12,890	-	62,939
Prepaid expenses	189,254	-	-	189,254
Restricted assets	9,060,451	-	-	9,060,451
Other assets	1,063,652	-	-	1,063,652
Capital assets:				
Assets not being depreciated	19,548,445	171,878	-	19,720,323
Assets being depreciated	-	210,733	-	210,733
Total assets	39,594,727	502,693	927	40,098,347
Liabilities				
Accounts payable	1,034,718	8,513	-	1,043,231
Accrued and other liabilities	64,556	2,730	-	67,286
Retainage payable	1,073,364	-	-	1,073,364
Payable to primary government (Note 6)	628,273	20,857	-	649,130
Due to other governmental units	1,207,436	2,073	-	1,209,509
Compensated absences:				
Due within one year	18,322	3,364	-	21,686
Due in more than one year	4,580	841	-	5,421
Bonds payable:				
Due within one year	1,575,000	495,000	-	2,070,000
Due in more than one year	23,150,000	3,720,000	-	26,870,000
Total liabilities	28,756,249	4,253,378	-	33,009,627
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	2,810,532	(3,832,389)	-	(1,021,857)
Unrestricted	8,027,946	81,704	927	8,110,577
Total net assets (deficit)	<u>\$ 10,838,478</u>	<u>\$ (3,750,685)</u>	<u>\$ 927</u>	<u>\$ 7,088,720</u>

City of Romulus, Michigan

	Expenses	Program Revenues		
		Charges for	Operating Grants/ Contributions	Capital Grants/ Contributions
		Services		
Tax Increment Finance Authority - Public works	\$ 1,550,023	\$ -	\$ -	\$ -
Downtown Development Authority - Public works	546,241	-	-	212,351
Economic Development Corporation - Community development	560	-	-	-
Total governmental activities	<u>\$ 2,096,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,351</u>

General revenues:

Property taxes

Interest income and other

Special item - transfer of asset

Change in Net Assets

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Total
\$ (1,550,023)	\$ -	\$ -	\$ (1,550,023)
-	(333,890)	-	(333,890)
-	-	(560)	(560)
(1,550,023)	(333,890)	(560)	(1,884,473)
5,153,058	698,049	-	5,851,107
1,213,037	7,796	47	1,220,880
-	(194,115)	-	(194,115)
4,816,072	177,840	(513)	4,993,399
6,022,406	(3,928,525)	1,440	2,095,321
\$ 10,838,478	\$ (3,750,685)	\$ 927	\$ 7,088,720

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Romulus, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

Reporting Entity

The City of Romulus, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The City of Romulus Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units

The following component units are reported within the component units column to emphasize that they are legally separate from the City.

The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is appointed by the mayor with the approval of the City Council.

The Downtown Development Authority (the "Development Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Development Authority's governing body, which consists of seven individuals, is appointed by the mayor with the approval of the City Council. In addition, the Development Authority's budget is subject to approval by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Tax Increment Finance Authority (the "Finance Authority") was created to promote growth. The Finance Authority's governing body, which consists of 13 individuals, is appointed by the mayor with the approval of the City Council. In addition, the Finance Authority's budget is subject to approval by the City Council.

The Brownfield Redevelopment Authority (the "Brownfield Authority") was created to promote growth by encouraging the correction of environmental damage. The Brownfield Authority's governing body, which consists of five individuals, is appointed by the mayor with the approval of the City Council. In addition, the Brownfield Authority's budget is subject to approval by the City Council. There has been no activity in the Brownfield Authority to date.

Separate financial statements for the above discretely presented component units are not prepared.

The City of Romulus Housing Authority (the "Housing Authority") has not been included in the City's reporting entity because the City lacks the ability to impose its will on the Housing Authority under the guidelines of Governmental Accounting Standards Board Statement Number 14. This entity is subject to separate audit requirements.

Jointly Governed Organizations

Jointly governed organizations are discussed in Note 16.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period availability; therefore, receivables have been recorded for these, along with a "deferred revenue" liability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the activities of the water distribution systems and sewage collection system.

Additionally, the City reports the following fund types:

Internal Service Funds - Internal Service Funds account for major vehicle and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Retirees' Insurance Benefit Fund, which accumulates resources for postretirement health benefit payments to qualified retirees.

Agency Funds - The Agency Funds are used to account for assets held by the City in a trustee capacity for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, except for such activity between the governmental and business-type funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost for services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts

Property Taxes - Properties are assessed as of December 31 of each year. The related property taxes are billed on July 1 of the following year and became a lien at that time. These taxes are due on September 30 with the final collection date of February 28 before they are added to the county tax rolls, at which time penalties and interest are assessed.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2006 taxable valuation of the City totaled \$1,287,471,383, on which ad valorem taxes levied consisted of 9.5196 mills for the City's operating purposes, .9500 mills for sanitation, and 1.5833 mills for EPA judgment levy. The ad valorem taxes levied raised approximately \$9.7 million for operations, \$970,000 for sanitation, and \$2.1 million for the EPA judgment levy. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Water and Sewer Fund financial statements as tax revenue.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted asset information is included in Note 7.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of component units is included as part of the capitalized value of the assets constructed. Total interest capitalized during the year ended June 30, 2007 was \$709,573.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Infrastructure	20 years
Utility system	50 years
Meters	50 years
Buildings and improvements	20 to 33 years
Equipment and machinery	3 to 10 years
Vehicles	3 to 15 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act), as amended. The following statements represent a brief synopsis of the major provisions of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget on an activity basis (department), which is in accordance with the State's legal requirements and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In February, the mayor holds a meeting with all departments. At this time, the finance department provides the necessary budget materials with instructions and discusses intended strategies.
2. In March, the mayor and finance director hold meetings with each department to review proposed spending and activities. Working with the finance director, alternative approaches are sought to provide better services and reduce costs. Departmental recommendations are refined by the mayor according to overall City needs and estimated available revenue.
3. The City Charter provides that the mayor must submit his recommendations on the upcoming year's budget on or before the first day of April. With his line item recommendations, the mayor summarizes major policy and concerns, along with his proposed tax levy and the estimated revenue generated, in his transmittal letter located in the supplemental schedules section of this document.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

4. The City Council conducts budget hearings with the mayor and the finance director during the month of April. Citizens are given an opportunity to comment on proposed spending at a City Council public hearing, which is generally held on the first or second Monday in May. Prior to this public hearing, the proposed budget is available to the public in the City clerk's office for inspection for a period of not less than three weeks. The City Council then makes final adjustments to the proposed budget, according to the concerns developed during its public hearings. Under the Charter, the City Council must adopt the final budget for the ensuing fiscal year on or before May 15 of each year.
5. The City budget is adopted by resolution, which incorporates the line items in the mayor's recommendations, amendments, and refinements as developed by changing events and concerns established in the City Council hearing process, and policy guidelines for expenditure of funds. A vote of four of the seven City Council members serving is necessary for budget adoption. The Mayor has item veto authority, which he may exercise subsequent to budget adoption.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. Encumbrances outstanding of \$62,583 at June 30, 2007 have been reappropriated into next year's budget. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information. Budgetary comparisons for the Special Revenue Funds can be obtained at City Hall.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

There were no significant budget overruns at June 30, 2007.

MCL 211.43 governs distributions by tax collecting units and states "not later than April 1, local unit treasurers make final adjustments and delivery of the total amount of tax collections on hand." The City did not remit taxes owed to other governmental units within the State's specified time frame for the 2006 tax levy, as it still held significant undistributed funds at June 30, 2007.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall is as follows:

Shortfall at July 1, 2006		\$ (1,257,801)
Current year building permit revenue		1,539,951
Related expenses:		
Direct costs	\$ 1,315,317	
Estimated indirect costs	<u>102,973</u>	
Total construction code expenses		<u>1,418,290</u>
Cumulative shortfall at June 30, 2007		<u>\$ (1,136,140)</u>

Fund Deficits - There are no fund deficits on the modified accrual basis at June 30, 2007. The component units are presented on the full accrual basis in the basic financial statements, resulting in deficits on that basis in the Downtown Development Authority.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the options discussed above.

Note 3 - Deposits and Investments (Continued)

The above-mentioned City investment policy applies to all financial assets of the City except for its Pension and Other Employee Benefit Trust Fund, which is organized and administered separately. Investments are made pursuant to provisions of the Public Employee Retirement System Investment Act of 1965. Michigan Public Act 314 of 1965 and Michigan Public Act 149 of 1999, as amended, authorize investments in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

At year end, the City had \$611,873 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had \$8,114,116 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At year end, the City had \$2,188,715 invested in U.S. government investment pools with a weighted average maturity of 8.09 months.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not further limit its investment choices.

As of year end, the City had \$18,717,634 invested in mutual funds and negotiable CDs that were unrated, \$2,188,715 in mutual funds with an AAA rating from Standards & Poor's, and \$1,720,247 in mutual funds with an Aaa rating from Moody's. The City's component units had \$11,601,241 invested in mutual funds that were unrated and \$302,409 invested in mutual funds with an AAA rating from Standard & Poor's.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Receivables

Receivables as of year end for the City's individual major funds, the nonmajor funds, and fiduciary funds, in the aggregate, are as follows:

	General Fund	Nonmajor Governmental Funds	Enterprise Fund	Fiduciary Fund	Total
Receivables:					
Taxes	\$ 2,202,778	\$ 189,318	\$ 467,876	\$ -	\$ 2,859,972
Accounts	249,321	392,436	2,329,063	462,797	3,433,617
Special assessment	-	1,188,173	-	-	1,188,173
Net receivables	<u>\$ 2,452,099</u>	<u>\$ 1,769,927</u>	<u>\$ 2,796,939</u>	<u>\$ 462,797</u>	<u>\$ 7,481,762</u>

The City's Water and Sewer Fund has recorded a receivable for approximately \$1,100,000 related to a major customer's billings for sewage and glycol services, of which the customer is disputing the liability. Due to the uncertain nature of the receivable, the City's Water and Sewer Fund has recorded an allowance for approximately \$858,000.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 1,151,886	\$ -
Delinquent personal property tax	1,241,326	-
Receivable from other governmental units	261,815	-
Building permit revenue	-	161,382
Grant payment received prior to meeting all eligibility requirements	-	827,169
Total	<u>\$ 2,655,027</u>	<u>\$ 988,551</u>

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity of the City's governmental activities, business-type activities, and component units was as follows:

	Balance July 1, 2006	Additions	Deletions	Transfers	Balance June 30, 2007
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 5,266,057	\$ -	\$ (1,241)	\$ 194,116	\$ 5,458,932
Construction in progress	3,233,440	658,123	-	(1,332,014)	2,559,549
Subtotal	8,499,497	658,123	(1,241)	(1,137,898)	8,018,481
Capital assets being depreciated:					
Land improvements	869,116	19,971	-	-	889,087
Buildings and improvements	14,328,341	16,101	-	-	14,344,442
Vehicles	6,304,348	375,835	(279,610)	-	6,400,573
Equipment and machinery	7,085,061	311,032	(87,727)	-	7,308,366
Infrastructure	56,094,515	977,262	-	1,332,014	58,403,791
Subtotal	84,681,381	1,700,201	(367,337)	1,332,014	87,346,259
Accumulated depreciation:					
Land improvements	404,421	28,480	-	-	432,901
Buildings and improvements	3,603,749	319,505	-	-	3,923,254
Vehicles	3,685,726	514,624	(277,831)	-	3,922,519
Equipment and machinery	4,961,807	562,905	(86,731)	-	5,437,981
Infrastructure	17,422,615	2,920,190	-	-	20,342,805
Subtotal	30,078,318	4,345,704	(364,562)	-	34,059,460
Net capital assets being depreciated	54,603,063	(2,645,503)	(2,775)	1,332,014	53,286,799
Net capital assets	\$ 63,102,560	\$ (1,987,380)	\$ (4,016)	\$ 194,116	\$ 61,305,280

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 88,065	\$ -	\$ -	\$ 88,065
Construction in progress	3,139,436	3,520,875	-	6,660,311
Subtotal	3,227,501	3,520,875	-	6,748,376
Capital assets being depreciated:				
Buildings	785,130	-	-	785,130
Utility system	73,113,361	678,096	-	73,791,457
Meters	1,468,211	44,727	-	1,512,938
Equipment	315,036	7,133	(30,550)	291,619
Subtotal	75,681,738	729,956	(30,550)	76,381,144
Accumulated depreciation:				
Buildings	571,932	15,354	-	587,286
Utility system	21,719,886	1,486,585	-	23,206,471
Meters	875,860	53,994	-	929,854
Equipment	255,590	25,961	(30,550)	251,001
Subtotal	23,423,268	1,581,894	(30,550)	24,974,612
Net capital assets being depreciated	52,258,470	(851,938)	-	51,406,532
Net capital assets	\$ 55,485,971	\$ 2,668,937	\$ -	\$ 58,154,908

	Balance July 1, 2006	Additions	Deletions	Transfers	Balance June 30, 2007
Component units:					
Downtown Development Authority:					
Capital assets not being depreciated:					
Land	\$ 356,810	\$ -	\$ -	\$ (194,116)	\$ 162,694
Construction in progress	212,726	30,317	-	(233,859)	9,184
Subtotal	569,536	30,317	-	(427,975)	171,878
Capital assets being depreciated -					
Buildings	-	-	-	233,859	233,859
Accumulated depreciation -					
Buildings	-	23,126	-	-	23,126
Net capital assets - Downtown Development Authority	569,536	7,191	-	(194,116)	382,611
Tax Increment Finance Authority:					
Capital assets not being depreciated:					
Land	1,634,506	1,331,167	-	-	2,965,673
Construction in progress	4,455,484	12,403,248	-	(275,960)	16,582,772
Net capital assets - Tax Increment Finance Authority	6,089,990	13,734,415	-	(275,960)	19,548,445
Net capital assets - Component units	\$ 6,659,526	\$ 13,741,606	\$ -	\$ (470,076)	\$ 19,931,056

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 221,676
Public safety	403,537
Public works	2,930,769
Recreation and culture	99,385
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>690,337</u>

Total governmental activities \$ 4,345,704

Business-type activities - Water and sewer \$ 1,581,894

Construction Commitments - The City and its Authority had an active construction project at year end for the Recreation Center Building. As of June 30, 2007, a balance remains on the contract of \$5,027,712.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
Internal Service Funds	Nonmajor governmental funds	\$ 22,573

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Due to/from Primary Government and Component Units

Receivable Fund	Payable Fund	Amount
Primary government - General Fund	Component unit - Tax Increment Finance Authority	\$ 628,273
Primary government - Other nonmajor governmental funds	Component unit - Downtown Development Authority	20,857
Total primary government		<u>\$ 649,130</u>
Component unit - Downtown Development Authority	Primary government - General Fund	\$ 11,871
	Primary government - Other nonmajor funds	1,019
Total Downtown Development Authority		<u>\$ 12,890</u>
Component unit - Tax Increment Finance Authority	Primary government - Water and Sewer Fund (major fund)	\$ 44,881
	Primary government - Other nonmajor funds	5,168
Total Tax Increment Finance Authority		<u>\$ 50,049</u>

Interfund balances arise from the centralized disbursement system as well as the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund Transfers

Transfers In	Transfers Out		
	Nonmajor Governmental		Total
	General Fund	Funds	
Nonmajor governmental funds	\$ 261,901	\$ 713,227	\$ 975,128
General Fund	-	78,641	78,641

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the General Fund were primarily related to the General Fund's portion of debt service expenditures. A transfer was made from the Major Streets Fund to the Beverly Road Fund for construction of a major road. Remaining transfers were mainly between the City's two street funds to redistribute ACT 51 monies from the Major Streets Fund to the Local Street Fund in accordance with a City Council-approved resolution

Note 7 - Restricted Assets

Restricted assets at June 30, 2007 consist of the following:

Business-type activities:

Cash on deposit at Wayne County	\$ 4,655,928
Cash and investments	<u>4,249,948</u>
Total business-type activities	<u>\$ 8,905,876</u>

Component units - Tax Increment Finance Authority -

Cash and investments	<u>\$ 9,060,451</u>
----------------------	---------------------

The cash on deposit at Wayne County is being held at Wayne County for County sewage disposal system bonds. These restricted assets resulted from property tax collections and are restricted for debt service payments. Net assets have been restricted for these amounts.

The cash and investments for the business-type activities consist of property tax collections held by the City to pay certain Water and Sewer Fund debt service payments, as well as unspent bond proceeds. Net assets have been restricted for the amounts related to the property tax collections.

The cash and investments for the component unit relate to unspent bond proceeds.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Lease Agreement

The City has entered into a lease agreement as lessee for financing the purchase of various City renovations. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date (see Note 9). Construction of the assets under the capital lease were complete as of June 30, 2006 and totaled \$2,499,858. The future minimum lease obligations for the years ending June 30, 2008 through June 30, 2015 and the net present value are as follows:

Years Ending June 30	Amount
2008	\$ 175,667
2009	182,693
2010	190,001
2011	491,495
2012	491,495
2013-2015	<u>1,474,484</u>
Total minimum payments	3,005,835
Less amount representing interest	<u>(568,295)</u>
Present value at June 30, 2007	<u>\$ 2,437,540</u>

Note 9 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Long-term Debt (Continued)

Long-term obligation activity for governmental and business-type activities can be summarized as follows:

	Interest Rate Range	Maturity Date Range	Maturity Payment Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:								
General Obligation Bonds:								
Building Authority Bonds - \$2,080,000	2.50%-3.25%	2013	\$215,000-\$270,000	\$ 1,880,000	\$ -	\$ (210,000)	\$ 1,670,000	\$ 215,000
Beverly Road Bond - \$1,650,000	4.00%-5.10%	2015	\$110,000-\$155,000	1,280,000	-	(105,000)	1,175,000	110,000
Installment purchase agreements - \$1,750,064	4.17%-6.30%	2009	\$204,926-\$213,560	615,125	-	(196,640)	418,485	204,926
Capital lease - Honeywell agreement - \$2,499,858	4.29%	2015	\$71,851-\$240,587	2,499,858	-	(62,319)	2,437,539	71,851
Special Assessment Bonds - Beverly Rd. - \$1,650,000	4.00%-5.10%	2021	\$80,000-\$90,000	1,355,000	-	(90,000)	1,265,000	90,000
Total governmental activities				<u>\$ 7,629,983</u>	<u>\$ -</u>	<u>\$ (663,959)</u>	<u>\$ 6,966,024</u>	<u>\$ 691,777</u>
Business-type activities:								
Wayne County Contractual Obligations - \$39,117,802	1.63%-6.30%	2026	\$31,750-\$2,090,753	\$ 27,256,689	\$ -	\$ (1,736,663)	\$ 25,520,026	\$ 1,810,534
Capital Improvement Bonds - Water and Sewer - \$7,000,000	3.5% - 5.0%	2027	\$230,000-\$535,000	7,000,000	-	-	7,000,000	230,000
Total business-type activities				<u>\$ 34,256,689</u>	<u>\$ -</u>	<u>\$ (1,736,663)</u>	<u>\$ 32,520,026</u>	<u>\$ 2,040,534</u>

Long-term obligation activity for the component units is as follows:

	Interest Rate Range	Maturity Date Range	Maturity Payment Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Tax Increment Finance Authority:								
General Obligation Bonds - \$14,070,000	2.00% - 6.75%	2009	\$665,000-\$690,000	\$ 2,000,000	\$ -	\$ (645,000)	\$ 1,355,000	\$ 665,000
General Obligation Bonds - \$5,445,000	2.50% - 4.30%	2019	\$300,000-\$470,000	5,160,000	-	(290,000)	4,870,000	300,000
General Obligation Bonds - \$18,500,000	4.0% - 5.0%	2027	\$610,000-\$1,355,000	18,500,000	-	-	18,500,000	610,000
Total - Tax Increment Finance Authority				25,660,000	-	(935,000)	24,725,000	1,575,000
Downtown Development Authority:								
General Obligation Bonds - \$2,500,000	2.00% - 3.80%	2013	\$180,000-\$235,000	1,600,000	-	(175,000)	1,425,000	180,000
General Obligation Bonds - \$3,400,000	2.50%-3.60%	2014	\$315,000-\$385,000	3,100,000	-	(310,000)	2,790,000	315,000
Total - Downtown Development Authority				4,700,000	-	(485,000)	4,215,000	495,000
Total component units				<u>\$ 30,360,000</u>	<u>\$ -</u>	<u>\$ (1,420,000)</u>	<u>\$ 28,940,000</u>	<u>\$ 2,070,000</u>

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 691,777	\$ 273,794	\$ 965,571	\$ 2,040,534	\$ 943,985	\$ 2,984,519	\$ 2,070,000	\$ 1,143,744	\$ 3,213,744
2009	720,628	248,493	969,121	2,089,304	890,118	2,979,422	2,145,000	1,076,100	3,221,100
2010	533,013	224,091	757,104	2,144,940	834,938	2,979,878	1,510,000	1,005,681	2,515,681
2011	846,773	201,575	1,048,348	2,201,306	777,598	2,978,904	1,560,000	949,718	2,509,718
2012	879,194	168,072	1,047,266	2,254,641	718,357	2,972,998	1,615,000	889,910	2,504,910
2013-2017	2,894,639	337,923	3,232,562	11,692,354	2,641,776	14,334,130	7,525,000	3,515,976	11,040,976
2018-2022	400,000	51,000	451,000	7,507,537	1,144,133	8,651,670	6,310,000	2,082,898	8,392,898
2023-2027	-	-	-	2,589,410	351,440	2,940,850	6,205,000	726,090	6,931,090
Total	\$ 6,966,024	\$ 1,504,948	\$ 8,470,972	\$ 32,520,026	\$ 8,302,345	\$ 40,822,371	\$ 28,940,000	\$ 11,390,117	\$ 40,330,117

Defeased Debt - During the year ended June 30, 2000, the County of Wayne, Michigan, on behalf of the City, defeased certain Downriver Sewage Disposal System 1994 Series A bonds by placing the proceeds in an irrevocable trust with an escrow agent to provide for all future debt services payments on the 1994 Series A bonds. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the City's Enterprise Fund. At June 30, 2007, \$491,000, representing the City's portion of the bonds outstanding, is considered defeased.

During the year ended June 30, 2005, the City issued \$2,080,000 in general obligation bonds with interest rates ranging from 2.50 percent to 3.25 percent. The proceeds of these bonds were used to advance refund \$2,205,000 of outstanding Building Authority bonds with an interest rate of 5 percent. The proceeds of the bonds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the government-wide statement of net assets. At June 30, 2007, \$1,665,000 of bonds outstanding are considered defeased.

In addition, during the year ended June 30, 2005, the City's Tax Increment Finance Authority issued \$5,445,000 in general obligation bonds with interest rates ranging from 2.5 percent to 4.3 percent. The proceeds of these bonds were used to advance refund \$5,695,000 of outstanding Tax Increment Finance Authority bonds with interest rates ranging from 2.00 percent to 6.75 percent. The proceeds of the bonds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the component units debt in the statement of net assets. At June 30, 2007, \$4,470,000 of bonds outstanding are considered defeased.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Reserved/Restricted Fund Balances/Net Assets

Fund balances/net assets have been reserved or restricted for the following purposes:

	General Fund	Nonmajor Governmental Funds	Water and Sewer Fund	Total
Reserved for training grant	\$ 6,139	\$ -	\$ -	\$ 6,139
Reserved for drain maintenance	8,711	-	-	8,711
Reserved for inventory	24,152	46,014	-	70,166
Reserved for grants expenditures	-	685,189	-	685,189
Restricted for debt service	-	-	6,843,117	6,843,117
Total	<u>\$ 39,002</u>	<u>\$ 731,203</u>	<u>\$ 6,843,117</u>	<u>\$ 7,613,322</u>

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries (workers' compensation) and for claims relating to general liability and property loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City was a member of the Michigan Municipal Risk Management Authority (MMRMA) risk pool program prior to July 1, 1998. MMRMA operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums were paid annually to MMRMA that MMRMA used to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The City no longer maintains a provision for claims incurred prior to July 1, 1998.

Note 12 - Contingencies

Clean Water Act

The City has been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under the terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$329,000,000, with the City's share estimated to be approximately \$44,000,000. The outstanding balance payable at June 30, 2007 was approximately \$25,500,000. The bonds will be paid through a court-ordered judgment levy. In addition, approximately \$15,000,000 of completion and capital improvement bonds will be issued in 2008.

Tax Appeals

The City is a defendant in several tax appeal cases. A major taxpayer of the City has appealed the valuation of a certain class of property. The City has reached a tentative settlement agreement with the taxpayer and prepared its financial statements on that basis. The settlement has been complicated and delayed by the taxpayer's bankruptcy. The City is also involved in a claim asserted by a residential property developer that the increase to its taxable value related to certain infrastructure improvements violates the Michigan Constitution. Since the outcome of this claim is uncertain, the City has not recorded a liability for any potential refund. The City is also a defendant in various other cases. Since the outcome of these matters is also uncertain, the City has not recorded a liability for potential refunds related to these appeals.

Wayne County Airport Authority

During 2006, the Wayne County Airport Authority made a claim that it has overpaid sewer charges in the past. The Authority is relying upon a 1973 agreement between the City and Wayne County in which the City agreed to charge 110 percent of the wholesale rate to the Airport. The City's position is that EPA regulations which required all users of the same classes be charged the same amount and that certain charges were covered by a separate agreement between the City and the Authority. The Authority has other arguments in support of its position.

Note 12 - Contingencies (Continued)

The Authority has been paying the rate billed for a number of years and only recently claimed that it should be paying at the 110 percent rate. In addition, it has been paying its bills at only 110 percent of the wholesale rate even though the City continues to bill at the retail rate. Given the uncertain nature of this matter, the City has recorded an allowance in the Water and Sewer Fund for the amount the City believes may not be recoverable from the Authority.

Department of Public Works (DPW) Building

During 2000, the Wayne County Airport Authority agreed to cover the costs associated with building a new DPW facility in exchange for the parcel of land on which the existing DPW facility was located. The memo of understanding between the two parties indicated that the cost of the new facility was not to exceed \$3.2 million. During 2004, a claim was made by the Wayne County Airport Authority that approximately \$1.3 million was spent constructing the new facility in excess of the original agreed-upon amount. The City disputed the amount, and the parties have reached a tentative agreement. The agreement is currently waiting approval by the Wayne County Commissioners, and requires the City to pay an additional \$186,000 to the Airport Authority. As of June 30, 2007, the City had paid the amount, which has been recorded as a prepaid asset since the amount was held in escrow at June 30, 2007.

Note 13 - Pension Plan - Michigan Municipal Employees' Retirement System

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers members of the Police Officers Labor Council, International Association of Fire Fighters, the mayor, and the Police Officers Association of Michigan. MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain MERS for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5.0 percent of gross wages for Police Officers Labor Council, 5.0 percent of gross wages for Police Officers Association of Michigan, 2.5 percent of gross wages for the International Association of Firefighters, and 5.0 percent from the mayor.

City of Romulus, Michigan

Notes to Financial Statements June 30, 2007

Note 13 - Pension Plan - Michigan Municipal Employees' Retirement System (Continued)

Annual Pension Costs - For the year ended June 30, 2007, the City's annual pension cost of \$1,189,056 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The amortization period is 29 years.

Reserves - As of June 30, 2007, the plan's contribution reserve has been fully funded as follows:

Legally required reserve - Reserve for employees' contributions \$ 2,529,616

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension costs (APC)	\$ 970,383	\$ 1,039,094	\$ 1,189,056
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 12,739,067	\$ 14,311,754	\$ 15,573,416
Actuarial accrued liability			
(entry age) (AAL)	\$ 24,609,913	\$ 30,750,328	\$ 32,916,682
Unfunded AAL (UAAL)	\$ 11,870,846	\$ 16,438,574	\$ 17,343,266
Funded ratio	51.8%	46.5%	47.3%
Covered payroll	\$ 4,467,009	\$ 5,186,486	\$ 5,358,087
UAAL as a percentage of covered payroll	265.7%	317.0%	323.7%

Note 14 - Defined Contribution Pension Plan

The City provides pension benefits to all groups not covered in the MERS plan through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by labor contracts with the approval by the City Council, the City contributes from 5.0 percent to 9.5 percent of employees' gross earnings and employees contribute 0.5 percent to 5.0 percent of earnings. In accordance with these requirements, the City contributed \$605,859 during the current year and employees contributed \$103,513.

Note 15 - Postemployment Benefits

The City provides healthcare benefits to substantially all full-time employees upon retirement, in accordance with labor contracts and City personnel policies as approved by the City Council. Currently, 67 retirees are eligible. The City included pre-Medicare retirees and their dependents in its insured healthcare plan. For certain employee groups, a contribution is required by the participant. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$833,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board (GASB) has recently issued Statement Number 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, and Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 43 established financial reporting standards for plans that provide postemployment benefits other than pensions (OPEBs). The new standard will require additional footnote disclosures of the plan as well as a periodic actuarial valuation. GASB 43 is effective for the year ending June 30, 2008.

GASB 45 provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). This new standard will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. This new pronouncement is effective for the year ending June 30, 2009.

Note 16 - Joint Venture

The City is a member of the 34th District Court, which provides services to the City of Romulus, the City of Belleville, and the Townships of Huron, Sumpter, and Van Buren. The City has a two-thirds interest in the revenue of the court and provides the annual funding for its operations. During the year, the City received net revenue from the Court of \$2,263,357. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the 34th District Court can be obtained from the administrative offices at 11131 Wayne Road, Romulus, Michigan.

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund. During the year, the City paid \$2,309,517 for operations of the system and \$2,193,135 for debt service. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future, except as discussed in Note 11. Financial statements for the joint venture can be obtained from the administrative offices at 415 Clifford, Detroit, MI 48226.

Required Supplemental Information

City of Romulus, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,471,157	\$ 2,486,631	\$ 2,486,631	\$ -
Resources (Inflows)				
Property taxes	10,742,537	10,742,537	10,563,380	(179,157)
Licenses and permits	1,619,000	1,619,000	1,761,418	142,418
Federal sources	129,723	154,723	55,578	(99,145)
State sources	5,693,033	5,588,444	3,941,398	(1,647,046)
Charges for services	1,998,343	1,998,343	1,860,949	(137,394)
Fines and forfeitures	600,000	1,086,569	2,263,357	1,176,788
Interest income	330,000	330,000	638,608	308,608
Transfers from other funds	78,641	78,641	78,641	-
Other	273,967	273,967	232,438	(41,529)
Total resources (inflows)	21,465,244	21,872,224	21,395,767	(476,457)
Charges to Appropriations (Outflows)				
General government:				
City Council	75,624	75,624	74,871	753
Mayor	405,261	416,461	404,864	11,597
Elections	114,629	127,495	106,419	21,076
Assessor	516,213	523,856	475,824	48,032
Attorney	287,233	382,233	376,417	5,816
Clerk	436,615	438,649	416,042	22,607
Finance department	607,753	609,203	611,828	(2,625)
Personnel	334,999	334,999	314,157	20,842
Treasurer	444,786	521,225	507,329	13,896
Building and grounds	4,104,325	4,133,512	2,618,690	1,514,822
City-owned property	40,000	40,000	10,802	29,198
Cemetery	135,702	135,702	142,442	(6,740)
Board of Review	1,615	1,615	1,507	108
Tax Tribunal refunds	30,000	30,000	5,142	24,858
Nondepartmental	823,428	523,838	318,254	205,584
Public safety:				
Police	7,959,443	8,611,740	8,542,092	69,648
Fire	2,138,879	2,330,887	2,265,493	65,394
Building inspection	1,294,421	1,304,432	1,050,999	253,433
Planning and zoning	279,015	279,495	264,318	15,177
Emergency preparedness	195,828	195,828	84,637	111,191
Community and economic development:				
Community service	14,200	14,200	14,100	100
Community and development	161,545	191,738	183,915	7,823
Public relations	9,225	9,225	7,030	2,195
Public works:				
Department of Public Works	499,978	499,978	446,394	53,584
Drains-at-large	132,900	132,900	59,287	73,613
Health and welfare:				
Ordinance	286,707	286,983	254,463	32,520
Animal control	220,668	221,138	209,902	11,236

City of Romulus, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Recreation and cultural:				
Recreation	\$ 563,249	\$ 564,327	\$ 536,030	\$ 28,297
Library	333,834	339,632	296,353	43,279
Historical	1,100	1,100	1,037	63
Transfers to other funds	261,901	261,901	261,901	-
Total charges to appropriations (outflows)	22,711,076	23,539,916	20,862,539	2,677,377
Fund Balance - End of year	\$ 1,225,325	\$ 818,939	\$ 3,019,859	\$ 2,200,920

Other Supplemental Information

City of Romulus, Michigan

	Nonmajor Special				
	Major Streets	Local Streets	Cable TV	911	Sanitation
Assets					
Cash and investments	\$ 1,146,780	\$ 336,066	\$ 117,917	\$ 365,055	\$ 16,061
Taxes receivable	-	-	-	-	189,318
Special assessment receivable	-	-	-	-	-
Accounts receivable	262,078	1,090	36,990	46,500	-
Due from component units	-	-	-	-	-
Due from other governmental units	201,450	66,165	-	-	-
Inventories	22,150	33,235	-	-	-
Total assets	<u>\$ 1,632,458</u>	<u>\$ 436,556</u>	<u>\$ 154,907</u>	<u>\$ 411,555</u>	<u>\$ 205,379</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 267,657	\$ 354,545	\$ -	\$ 8,159	\$ 74,312
Accrued wages	7,634	11,449	1,485	-	-
Due to other funds	-	-	-	-	-
Accounts payable to component units	-	-	-	-	6,187
Deferred revenue	261,815	-	-	-	110,125
Total liabilities	537,106	365,994	1,485	8,159	190,624
Fund Balances					
Reserved	18,406	27,608	-	-	-
Unreserved:					
Designated	417,441	-	43,614	8,140	-
Undesignated	659,505	42,954	109,808	395,256	14,755
Total fund balances	1,095,352	70,562	153,422	403,396	14,755
Total liabilities and fund balances	<u>\$ 1,632,458</u>	<u>\$ 436,556</u>	<u>\$ 154,907</u>	<u>\$ 411,555</u>	<u>\$ 205,379</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Revenue Funds

		Merriman Road					
Community Development Block Grant		Special Assessment District	Narcotics Enforcement	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds	
\$ 42,034	\$ 95,288	\$ 65,698	\$ 696,207	\$ 26,161	\$ 230,195	\$ 3,137,462	
-	-	-	-	-	-	189,318	
-	-	10,359	-	-	1,177,814	1,188,173	
-	45,778	-	-	-	-	392,436	
20,857	-	-	-	-	-	20,857	
-	-	-	-	-	-	267,615	
-	-	-	-	-	-	55,385	
\$ 62,891	\$ 141,066	\$ 76,057	\$ 696,207	\$ 26,161	\$ 1,408,009	\$ 5,251,246	
\$ 19,631	\$ 31,664	\$ 17,375	\$ 40,997	\$ -	\$ -	\$ 814,340	
-	-	-	-	-	-	20,568	
-	-	-	-	22,573	-	22,573	
-	-	-	-	-	-	6,187	
13,281	-	-	-	-	1,151,886	1,537,107	
32,912	31,664	17,375	40,997	22,573	1,151,886	2,400,775	
29,979	-	-	655,210	-	-	731,203	
-	-	-	-	2,996	-	472,191	
-	109,402	58,682	-	592	256,123	1,647,077	
29,979	109,402	58,682	655,210	3,588	256,123	2,850,471	
\$ 62,891	\$ 141,066	\$ 76,057	\$ 696,207	\$ 26,161	\$ 1,408,009	\$ 5,251,246	

City of Romulus, Michigan

	Special Revenue				
	Major Streets	Local Streets	Cable TV	911	Sanitation
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 970,121
Federal sources	-	-	-	-	-
State sources	1,110,265	402,953	-	-	-
Fines and forfeitures - State	-	-	-	-	-
Interest income	76,704	8,504	5,859	16,832	9,047
Other	16,702	19,723	140,635	162,481	3,379
Total revenue	1,203,671	431,180	146,494	179,313	982,547
Expenditures					
Current:					
General government	-	-	164,609	-	-
Public safety	-	-	-	112,721	-
Public works	770,533	1,093,788	-	-	889,151
Recreation and culture	-	-	-	-	-
Debt service	-	-	-	-	-
Total expenditures	770,533	1,093,788	164,609	112,721	889,151
Excess of Revenue Over (Under)					
Expenditures	433,138	(662,608)	(18,115)	66,592	93,396
Other Financing Sources (Uses)					
Transfers in	-	555,132	-	-	-
Transfers out	(713,227)	-	-	-	(78,641)
Total other financing sources (uses)	(713,227)	555,132	-	-	(78,641)
Net Change in Fund Balances	(280,089)	(107,476)	(18,115)	66,592	14,755
Fund Balances - July 1, 2006	1,375,441	178,038	171,537	336,804	-
Fund Balances - June 30, 2007	<u>\$ 1,095,352</u>	<u>\$ 70,562</u>	<u>\$ 153,422</u>	<u>\$ 403,396</u>	<u>\$ 14,755</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2007

Funds						
Community Development Block Grant	Street Lighting	Merriman Road Special Assessment District	Narcotics Enforcement	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 419,966	\$ -	\$ -	\$ -	\$ -	\$ 1,390,087
90,931	-	-	104,533	-	-	195,464
-	-	-	-	-	-	1,513,218
-	-	-	425,385	-	-	425,385
-	4,901	2,167	25,371	916	18,880	169,181
-	-	69,326	36,472	-	150,487	599,205
90,931	424,867	71,493	591,761	916	169,367	4,292,540
-	-	-	-	-	-	164,609
-	-	-	493,985	-	-	606,706
-	371,868	66,237	-	-	-	3,191,577
93,212	-	-	-	-	-	93,212
-	-	-	-	262,851	308,965	571,816
93,212	371,868	66,237	493,985	262,851	308,965	4,627,920
(2,281)	52,999	5,256	97,776	(261,935)	(139,598)	(335,380)
-	-	-	-	261,901	158,095	975,128
-	-	-	-	-	-	(791,868)
-	-	-	-	261,901	158,095	183,260
(2,281)	52,999	5,256	97,776	(34)	18,497	(152,120)
32,260	56,403	53,426	557,434	3,622	237,626	3,002,591
\$ 29,979	\$ 109,402	\$ 58,682	\$ 655,210	\$ 3,588	\$ 256,123	\$ 2,850,471

City of Romulus, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2007

	Vehicle and Equipment Fund	Computer and Equipment Fund	Property and Liability Self- insurance Fund	Long-term Disability Self- insurance Fund	Totals
Assets					
Current assets:					
Cash and investments	\$ 241,990	\$ 590,537	\$ 222,148	\$ 36,911	\$ 1,091,586
Due from other funds	-	22,573	-	-	22,573
Inventories and prepaid expenses	53,960	-	-	-	53,960
Total current assets	295,950	613,110	222,148	36,911	1,168,119
Noncurrent assets - Capital assets	2,808,081	86,672	-	-	2,894,753
Total assets	3,104,031	699,782	222,148	36,911	4,062,872
Liabilities					
Current liabilities:					
Accounts payable	35,398	16,327	-	-	51,725
Accrued wages	10,993	2,305	-	-	13,298
Current portion of compensated absences	29,784	15,708	-	-	45,492
Current portion of long-term debt	204,926	-	-	-	204,926
Total current liabilities	281,101	34,340	-	-	315,441
Noncurrent liabilities:					
Provision for compensated absences - Net of current portion	7,446	3,927	-	-	11,373
Long-term debt - Net of current portion	213,559	-	-	-	213,559
Total liabilities	502,106	38,267	-	-	540,373
Net Assets					
Invested in capital assets - Net of related debt	2,389,596	86,672	-	-	2,476,268
Unrestricted	212,329	574,843	222,148	36,911	1,046,231
Total net assets	<u>\$ 2,601,925</u>	<u>\$ 661,515</u>	<u>\$ 222,148</u>	<u>\$ 36,911</u>	<u>\$ 3,522,499</u>

City of Romulus, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2007

	Vehicle and Equipment Fund	Computer and Equipment Fund	Property and Liability Self- insurance Fund	Long-term Disability Self- insurance Fund	Totals
Operating Revenue					
Charges to other funds	\$ 1,615,136	\$ 483,508	\$ 578,460	\$ -	\$ 2,677,104
Other	4,744	-	-	-	4,744
Total operating revenue	1,619,880	483,508	578,460	-	2,681,848
Operating Expenses					
Salaries	340,090	210,759	-	-	550,849
Operating supplies	18,435	40,917	-	-	59,352
Repairs and maintenance	164,728	141,540	-	-	306,268
Gas and oil	304,218	-	-	-	304,218
Insurance	213,490	17,310	608,062	-	838,862
Fringe benefits	197,224	18,920	-	-	216,144
Miscellaneous	5,735	7,702	-	-	13,437
Depreciation	638,552	51,785	-	-	690,337
Contractual services	52,199	35,639	-	-	87,838
Claims and legal	-	-	47,571	-	47,571
Total operating expenses	1,934,671	524,572	655,633	-	3,114,876
Operating Loss	(314,791)	(41,064)	(77,173)	-	(433,028)
Nonoperating Revenue (Expense)					
Investment income	-	25,081	10,261	1,790	37,132
Interest expense	(23,774)	-	-	-	(23,774)
Gain on sale of fixed assets	21,379	-	-	-	21,379
Total nonoperating revenue (expense)	(2,395)	25,081	10,261	1,790	34,737
Net Increase (Decrease) in Net Assets	(317,186)	(15,983)	(66,912)	1,790	(398,291)
Net Assets - Beginning of year	2,919,111	677,498	289,060	35,121	3,920,790
Net Assets - End of year	<u>\$ 2,601,925</u>	<u>\$ 661,515</u>	<u>\$ 222,148</u>	<u>\$ 36,911</u>	<u>\$ 3,522,499</u>

City of Romulus, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2007

	Vehicle and Equipment Fund	Computer and Equipment Fund	Property and Liability Self- insurance Fund	Long-term Disability Self- insurance Fund	Totals
Cash Flows from Operating Activities					
Receipts from other funds	\$ 1,619,880	\$ 483,508	\$ 578,460	\$ -	\$ 2,681,848
Payments to suppliers	(859,515)	(248,477)	(10,000)	-	(1,117,992)
Payments to employees	(531,453)	(229,311)	(655,633)	-	(1,416,397)
Net cash provided by (used in) operating activities	228,912	5,720	(87,173)	-	147,459
Cash Flows from Capital and Related Financing Activities					
Proceeds from the sale of fixed assets	18,390	-	-	-	18,390
Principal paid on long-term debt	(196,640)	-	-	-	(196,640)
Interest paid on long-term debt	(23,774)	-	-	-	(23,774)
Purchase of capital assets	(375,835)	(47,957)	-	-	(423,792)
Net cash used in capital and related financing activities	(577,859)	(47,957)	-	-	(625,816)
Cash Flows from Investing Activities - Investment income	-	25,081	10,261	1,790	37,132
Net Increase (Decrease) in Cash and Cash Equivalents	(348,947)	(17,156)	(76,912)	1,790	(441,225)
Cash and Cash Equivalents - July 1, 2006	590,937	607,693	299,060	35,121	1,532,811
Cash and Cash Equivalents - June 30, 2007	\$ 241,990	\$ 590,537	\$ 222,148	\$ 36,911	\$ 1,091,586
Reconciliation of Operating Loss to Net Cash from Operating Activities					
Operating loss	\$ (314,791)	\$ (41,064)	\$ (77,173)	\$ -	\$ (433,028)
Adjustments to reconcile operating loss to net cash from operating activities:					
Depreciation	638,552	51,785	-	-	690,337
Changes in assets and liabilities:					
Receivables	-	-	-	-	-
Inventory	(18,351)	-	-	-	(18,351)
Accounts payable	(82,359)	(5,369)	(10,000)	-	(97,728)
Accrued and other liabilities	5,861	368	-	-	6,229
Net cash provided by (used in) operating activities	\$ 228,912	\$ 5,720	\$ (87,173)	\$ -	\$ 147,459

City of Romulus, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2007

	Revolving Fund	General Tax Fund	Current Tax Fund	Delinquent Personal Property Tax Fund	Payroll Fund	Totals
Assets						
Cash and investments	\$ 2,425,195	\$ 48,563	\$ 5,609,103	\$ 378,258	\$ 182,333	\$ 8,643,452
Accounts receivable	391,481	-	-	-	-	391,481
Prepaid expenses	-	-	-	-	218	218
Due from other governmental units	-	-	150,326	-	3,096	153,422
Total assets	<u>\$ 2,816,676</u>	<u>\$ 48,563</u>	<u>\$ 5,759,429</u>	<u>\$ 378,258</u>	<u>\$ 185,647</u>	<u>\$ 9,188,573</u>
Liabilities						
Due to other governmental units	\$ -	\$ 48,563	\$ 5,759,429	\$ 231,590	\$ -	\$ 6,039,582
Accrued and other liabilities	2,816,676	-	-	146,668	185,647	3,148,991
Total liabilities	<u>\$ 2,816,676</u>	<u>\$ 48,563</u>	<u>\$ 5,759,429</u>	<u>\$ 378,258</u>	<u>\$ 185,647</u>	<u>\$ 9,188,573</u>

City of Romulus, Michigan

Other Supplemental Information Governmental Fund Balance Sheet/Statement of Net Assets Tax Increment Finance Authority June 30, 2007

	Modified Accrual	Full Accrual Adjustments	Full Accrual
Assets			
Cash and investments	\$ 9,522,858	\$ -	\$ 9,522,858
Receivables:			
Interest	73,154	-	73,154
Property taxes	60,000	-	60,000
Due from other governmental units	26,864	-	26,864
Receivable from primary government	50,049	-	50,049
Prepaid expenses	189,254	-	189,254
Restricted assets	9,060,451	-	9,060,451
Other assets - capitalized debt costs	-	1,063,652	1,063,652
Capital assets not being depreciated	-	19,548,445	19,548,445
Total assets	18,982,630	20,612,097	39,594,727
Liabilities			
Accounts payable	1,034,718	-	1,034,718
Accrued and other liabilities	64,556	-	64,556
Retainage payable	1,073,364	-	1,073,364
Payable to primary government	628,273	-	628,273
Due to other governmental units	1,207,436	-	1,207,436
Compensated absences:			
Due within one year	-	18,322	18,322
Due in more than one year	-	4,580	4,580
Bonds payable:			
Due within one year	-	1,575,000	1,575,000
Due in more than one year	-	23,150,000	23,150,000
Total liabilities	4,008,347	24,747,902	28,756,249
Fund Balance			
Reserved for construction	7,987,087	(7,987,087)	-
Unreserved - Undesignated	6,987,196	(6,987,196)	-
Total fund balance	14,974,283	(14,974,283)	-
Total liabilities and fund balance	<u>\$ 18,982,630</u>		
Net Assets			
Invested in capital assets - Net of related debt		2,810,532	2,810,532
Unrestricted		8,027,946	8,027,946
Total net assets		<u>\$ 10,838,478</u>	<u>\$ 10,838,478</u>

City of Romulus, Michigan

Other Supplemental Information Statement of Government Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Tax Increment Finance Authority June 30, 2007

	Modified Accrual	Full Accrual Adjustments	Full Accrual
Revenue			
Property taxes	\$ 5,153,058	\$ -	\$ 5,153,058
Interest income and other	<u>1,213,037</u>	<u>-</u>	<u>1,213,037</u>
Total revenue	6,366,095	-	6,366,095
Expenditures			
Capital outlay	14,206,539	(13,458,454)	748,085
Debt service	1,894,293	(1,644,573)	249,720
Administrative and other	<u>477,948</u>	<u>74,270</u>	<u>552,218</u>
Total expenditures	<u>16,578,780</u>	<u>(15,028,757)</u>	<u>1,550,023</u>
Excess of Revenue Over Expenditures/Change in Net Assets	(10,212,685)	15,028,757	4,816,072
Fund Balance/Net Assets - Beginning of year	<u>25,186,968</u>	<u>(19,164,562)</u>	<u>6,022,406</u>
Fund Balance/Net Assets - End of year	<u>\$ 14,974,283</u>	<u>\$ (4,135,805)</u>	<u>\$ 10,838,478</u>

Report on Internal Control Over Financial Reporting



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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Honorable Mayor and
Members of the City Council
City of Romulus, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Romulus, Michigan as of and for the year ended June 30, 2007 which collectively comprise City of Romulus Michigan's basic financial statements, and have issued our report thereon dated December 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Romulus, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Romulus, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Romulus, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying schedule of findings as items 2007-01 and 2007-03 to be significant deficiencies in internal control over financial reporting.

To the Honorable Mayor and
Members of the City Council
City of Romulus, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Romulus, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or another matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2007-02.

The City of Romulus, Michigan's response to the significant deficiencies and findings related to noncompliance identified in our audit and described in the accompanying schedule of findings has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Romulus, Michigan's management and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 3, 2007

City of Romulus, Michigan

Schedule of Findings Year Ended June 30, 2007

Reference Number	Findings
2007-01	<p>Finding Type - Significant deficiency</p> <p>Criteria - To prevent and/or detect material misstatement, subsidiary ledgers should be reconciled to the general ledger periodically throughout the year.</p> <p>Condition - The City did not perform timely account reconciliations of the delinquent personal property tax receivables and the undistributed current tax liability account.</p> <p>Context - The City did not reconcile several accounts in various funds related to delinquent personal property taxes receivable where detail listings are not being maintained and not reconciled to the general ledger. In addition, the City did not perform complete reconciliations of the undistributed current tax liability account by entity until after year end.</p> <p>Effect - Unresolved differences on account reconciliations could result in errors in the general ledger.</p> <p>Cause - Internal control procedures were not developed and followed on a consistent basis</p> <p>Recommendation - The City will need to invest in a system to create and maintain a delinquent personal property tax subsidiary ledger. On the reconciliation of the undistributed current tax liability account, the City's treasurer's office, finance department, and assessor's office met throughout the year and revised the tax collection and disbursement procedures to improve this process. It is our understanding that the procedures were implemented by the treasurer's office during the 2006 tax year and should result in more timely and accurate reconciliations of the tax collection/disbursement process going forward. We encourage all three departments to continue to work together to ensure the revised tax collection/disbursement processes are followed and that improvements continue to be made.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City understands the importance of timely reconciliations and will continue to focus on implementing the necessary procedures to ensure its tax collection/distributions are appropriately recorded and reconciled throughout the year.</p>

City of Romulus, Michigan

Schedule of Findings (Continued) Year Ended June 30, 2007

Reference Number	Findings
2007-02	<p>Finding Type - Noncompliance with laws and regulations</p> <p>Criteria - MCL 211.43 governs distributions by tax collecting units and states “not later than April 1, local unit treasurers make final adjustments and delivery of the total amount of tax collections on hand.”</p> <p>Condition - The City did not remit taxes owed to other governmental units within the State’s specified time frame for the 2006 tax levy, as it still held significant undistributed funds at June 30, 2007.</p> <p>Context - In the past several years, there have been issues with the distribution of property tax collections. As a result of these issues, the City’s treasurer’s office, finance department, and assessor’s office met throughout the year and revised the tax collection and disbursement procedures to improve this process. The City was in the process of implementing new procedures in this area and did not make final distributions until this process was complete.</p> <p>Effect - Tax collections not fully remitted to the proper governmental unit not distributed within the State’s specified time frame are in violation of the state law governing the tax remittance process.</p> <p>Cause - City policies related to timeliness of reconciliation and disbursements of tax monies were revised during the year and were not fully implemented at year end.</p> <p>Recommendation - We encourage all three departments to continue to work together to ensure the revised tax collection/disbursement processes are followed and that improvements continue to be made. Also, we suggest that a preliminary distribution be made even if the reconciliations have not been entirely completed or if reconciling items have been identified that require more analysis.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City understands the importance of complying with state statute related to the timely remittance of tax collections to other governmental entities and will continue to focus on implementing the necessary procedures to ensure its tax collection/distributions are appropriately remitted throughout the year.</p>

City of Romulus, Michigan

Schedule of Findings (Continued) Year Ended June 30, 2007

Reference Number	Finding
2007-03	<p>Finding Type - Significant deficiency</p> <p>Criteria - For the period under audit, SAS 112 was effective, under which certain adjusting entries indicative of control matters now represent significant deficiencies.</p> <p>Condition - In connection with the City's financial statement audit of the year ended June 30, 2007, the City was required to post one entry in order to record a retainage payable related to a construction project still in process at year end and an entry to reduce the value of land that was obtained from tax reversion and determined to be contaminated.</p> <p>Context - Historically, the City's auditors have recommended journal entries as part of the audit. For the audit of the City's year ended June 30, 2007, Statement on Auditing Standards (SAS) No. 112, <i>Communicating Internal Control Related Matters Identified in an Audit</i>, was effective. SAS 112 now defines entries of this nature to be significant deficiencies.</p> <p>Effect - The City's unadjusted financial statements were misstated by the amount of the unrecorded retainage payable and appraised land value.</p> <p>Cause - The adjusting entry was due to the retainage on the only significant construction contract in progress at year end. The adjusting entry related to the land was the only parcel that was obtained through tax reversion that was contaminated.</p> <p>Recommendation - The City should implement procedures to ensure all subsequent disbursements related to on-going construction contracts are reviewed to determine whether the item should be recorded as a payable in the current year. In addition, the City should ensure controls are implemented to provide appropriate communication of potential impairments when land is acquired.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will focus on reviewing subsequent disbursements on construction contracts to determine the proper treatment prior to the start of future audits. The City will also ensure necessary communications related to potential impairments of land acquisitions are made. In the current year, the City's staff was able to significantly limit and reduce the number of journal entries made by the auditors.</p>

December 3, 2007

To the Honorable Mayor and Members of
the City Council
City of Romulus
11111 Wayne Road
Romulus, MI 48174

Dear Mayor and City Council Members:

We recently completed our audit of the basic financial statements for the City of Romulus, Michigan for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

State-shared Revenue

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there were approximately \$400 million of "to-be-determined" cuts that were agreed to in late October completing the fiscal year 2007/2008 budget process. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the revenue-sharing formula and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?

- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond. Although the State's adopted budget for fiscal year 2007/2008 includes an appropriation for revenue sharing based on an extension of the Act for one year, legislation to accomplish this still requires action. Beyond the extension of the Act, more debate will likely follow regarding the revenue-sharing formula of the future.
- **Changes to Michigan's Tax Structure:** The Michigan single business tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Further changes to Michigan's tax structure were made on October 1, as described above, to partially close the structural budget deficit that exists.

While the governor's initial budget for fiscal year 2007/2008 included incentives for increased revenue-sharing to communities that shared services, the incentives were not included in the final budget. In addition, revenue sharing was held "flat" for fiscal year 2007/2008 from fiscal year 2007 levels in the final approved budget.

Also, we have received numerous inquiries regarding a noticeable shortfall in the October 2007 revenue sharing payment from the State. The shortfall relates to the 30-day continuation budget passed by the State, which ended October 31. The continuation budget provided limited funds and, therefore, October revenue-sharing payments were much lower than expected. The Michigan Department of Treasury has indicated that since the actual budget has passed, those remaining funds will be remitted to communities either with their December 2007 payment or in an extra payment from the Treasury prior to the December 2007 payment.

Since the reductions to revenue sharing began in 2001, the City's funding level from the State decreased from approximately \$2.85 million in 2001 to approximately \$2.18 million in 2007 - a decrease of approximately \$670,000 from the City's annual budget. Based on the issues noted above, it is unclear what the outcome will be regarding the long-term funding of statutory revenue sharing. We continue to encourage all local governments, including the City, to be conservative in their estimation of future revenue-sharing levels.

Funding of Other Postemployment Benefits (i.e., Retiree Health Care)

We have been discussing with the City for several years the new accounting standards - referred to as GASB 43 and GASB 45 - which will now require local governments to recognize the cost of retiree health care and other similar nonpension benefits over the working life of employees on an actuarial basis. The City is in the process of obtaining the actuarial valuation required by the new standards. GASB 45 is effective for the City's fiscal year ending June 30, 2009. If the City decides to fund at the level determined by the actuary, the City will need this data in January or early February 2008 to incorporate this new cost into the City's budget process for fiscal year 2008/2009.

Financial Position

Like many other communities, Romulus continues to be vulnerable to the structural challenges with Michigan's municipal finance model. Cuts to state-shared revenue, property tax limitations heightened by the interaction of Headlee and Proposal A, restrictions on fees and charges for services, new funding requirements related to retiree health care, etc. all challenge the City's ability to continue to provide services at the current level with existing revenue. In light of these many challenges, the City has been able to maintain a bare minimum level of fund balance in the General Fund (approximately 8 percent of last year's expenditures). This has been accomplished as a result of keeping spending below budget and through greater levels of court revenue than anticipated (which may or may not be sustainable). The City also remains dependent on tax base expansion to provide significant new sources to stabilize the City's financial picture.

Changes to any of the multiple variables noted above and others (revenue sharing, new unfunded mandates, unplanned necessary expenditures, capital needs, court revenue, no growth in property tax revenue, litigation and tax appeals, financial matters with Wayne County and the Airport Authority, etc.) are all very serious threats to the City's ability to maintain its current financial position as it has over the last several years. We continue to encourage the City to develop a multi-year financial model that will assist the City in analyzing the impact of changes in its financial condition on General Fund fund balance.

Other Matters

Local Street Fund Operations - The fund balance in the City's Local Street Fund has been steadily declining over the past several years. The fund balance at June 30, 2007 is approximately \$70,000. Annual expenditures in the fund were approximately \$1.1 million last year. This is a similar situation faced by many local governments and it is largely attributed to funding levels received from the State from the gas and weight tax. We encourage the City to continue to monitor this financial matter closely and to consider alternative methods of funding local road expenditures.

Vehicle and Equipment Fund Operations - The City's unrestricted net assets (available funds for operations) in the Vehicle and Equipment Fund have declined to approximately \$212,000 (annual expenses were approximately \$1.9 million). The City utilizes this fund to purchase and maintain its motor vehicle pool and other equipment. Essentially, with this level of unrestricted net assets, the City does not have adequate funds available for additional investment in capital assets.

Water and Sewer Fund Operations - We understand that the City has increased rates to address the level of unrestricted net assets in the Water and Sewer Fund, which was necessary. We continue to strongly recommend that the City utilize a long-term financial planning model to review the asset management and rate-setting structure of the fund. This process should include a comprehensive analysis of cost of service by customer class, and consider capital needs and current and future debt service requirements and the impact of the above on retail rate design.

Financial Matters with Wayne County and the Airport Authority - The City continues to have a number of significant financial matters open with Wayne County, including the DPW building, tax appeals, road project balances, etc. The City also has a number of significant financial matters open with the Airport Authority (glycol and sewer billings, tax appeals, etc.). We continue to encourage the City to maintain a consolidated list of these issues as the City works on bringing these matters to a final resolution.

Tax Increment Districts - The City utilizes both a Tax Increment Financing Authority (TIFA) and Downtown Development Authority (DDA) to promote and encourage economic development and other related purposes. As discussed later in this letter, the new Michigan business tax exempts industrial and commercial property from certain school taxes. Both authorities have pre-Proposal A eligible debt obligations which allow them to utilize school tax captures up to the amount of the annual debt service on the eligible debt obligations. While not intended to impact this process, the new MBT may impact the school tax dollars available for eligible obligations. Also, both authorities have completed a number of projects and have other debt outstanding. More bonded projects are likely part of the plans in the future. We would encourage both authorities to utilize a multi-year financial plan to monitor tax capture revenue that will be available for debt and to proceed with planned projects.

Account Escrows - Based on our understanding of the City's procedures for accounting for building and inspection fees, the City utilizes escrow accounts to track this activity on a project basis. We suggest that the City also modify its tracking of this activity to reflect the gross revenue received and the cost of these services to better match revenue and expenditures in the aggregate for reporting purposes. This may require some modification to the City's system and processes but will also produce more summarized information.

Internal Control Considerations

As we have for the last several years, we again complied with Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement Audit*. During the audit, we noted the following matters involving the City's internal controls that we wanted to bring to your attention:

Account Reconciliations - While we commend the City on improving the timing of its reconciliation process for water and sewer revenue, we encourage the City to develop a process during the year to periodically reconcile the water and sewer accounts receivable subledger to the general ledger balance to further enhance controls.

Cash Receipts - During our audit testing, we noted that the same individual who is responsible for cash receipting is also making the daily deposits to the bank. We recommend that the City segregate these two functions to separate staff members for internal control purposes.

Credit Card Policy - Currently, the City's credit card policy, adopted in January 2002, authorizes only the mayor to make credit card purchases on behalf of the City. However, it has come to our attention that several other individuals within the City use credit cards for City purchases. We recommend that the City review the credit card policy and update the policy to reflect the City's current practices.

Payroll - During the audit, we noted that the City's payroll department does not receive documentation related to employee requests for vacation time from all departments. In addition, the police department may have policies related to the maintaining of these records that are not consistent with the City's overall document retention policies. We encourage the City to ensure that documentation policies are consistent across departments and that payroll receives all information necessary to verify time off.

In addition to the comments and recommendations in this letter, our audit also identified, as required by the new Statement on Auditing Standards No. 112, significant deficiencies in internal controls that have been reported to you in the accompanying report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. The three matters noted in that report relate to property tax collections, property tax distributions, and journal entries. This report is included as a supplementary report of the basic financial statements, and we recommend that the matters we have noted there receive your careful consideration.

Major Auditing Standards Changes

New rules will become effective for the City's audit next year. These new rules, which are known collectively as the new Risk Assessment Standards, significantly change the procedures auditors must perform in all financial statement audits. Under these new rules, auditors will be required to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, we will need to make more detailed and specific requests for information from the City, particularly about processes and controls. We are already working with the City to implement these upcoming changes. These changes are a result of the major corporate scandals that have happened, and are designed to strengthen the confidence of users of audited financial statements.

Other Legislative Issues

New Michigan Business Tax - As previously indicated, the new Michigan business tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT.

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the state education tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the six SET mills and the 18 school operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

New Cable Franchise Legislation - The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the "Uniform Video Services Local Franchise Act" which provides a statewide framework for franchising agreements, instead of individual community agreements. Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit to video service providers, based on annual maintenance fees paid for use of public rights of way, is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

The City likely began receiving its first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage the City to review this payment compared to payments previously received and follow up with your provider as required. Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

Municipal Finance Act Revisions - Reminder - The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

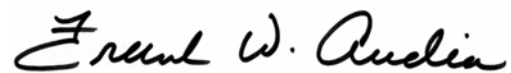
To the Honorable Mayor and Members of 8
the City Council
City of Romulus

December 3, 2007

We would like to thank the finance department (particularly Debra Hoffman and Abbie Atkins), as well as all of the City of Romulus' personnel for their assistance and cooperation during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Frank W. Audia". The script is cursive and fluid.

Frank W. Audia

A handwritten signature in black ink that reads "Stacey Reeves". The script is cursive and fluid.

Stacey L. Reeves